

Message Text

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ACTION EA-12

INFO OCT-01 AF-10 ARA-10 EUR-12 NEA-10 ISO-00 IO-13

FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-08 FPC-01 H-01 INR-07 INT-05 L-03

NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02

SS-15 STR-05 TRSE-00 ACDA-12 PA-01 PRS-01 /165 W

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R 030250Z NOV 77

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 4760

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

USINT BAGHDAD

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY DHAHRAN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMCONSUL MEDAN

AMEMBASSY QUITO

AMEMBASSY PARIS

AMCONSUL SURABAYA

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

C O N F I D E N T I A L JAKARTA 14832

E.O. 11652: GDS

TAGS: ENRG, ID, OPEC

SUBJECT: SADLI AND HARYONO COMMENT ON OPEC PRICING

1. IN GENERAL DISCUSSION OF CURRENT DEVELOPMENTS IN INDONESIAN

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ENERGY SECTOR, MINISTER OF MINES SADLI TOLD CHARGE THAT "HIS

PERSONAL OPINION" IS THAT 5 PERCENT INCREASE IN OIL PRICES

WOULD BE PROBABLE OUTCOME OF CARACAS OPEC MEETING. SADLI

FELT THIS KIND OF MODEST INCREASE JUSTIFIED IN LIGHT OF OIL

PRODUCERS' NEED TO PROTECT VALUE OF THEIR INCOME, AND

WOULD AT SAME TIME AVOID NEW OIL PRICE SHOCKS TO WORLD

ECONOMY WHICH COULD HAVE NEGATIVE POLITICAL CONSEQUENCES.

2. SADLI REFERRED TO RECENT MEETING IN WASHINGTON WHERE ASSISTANT SECRETARY OF TREASURY BERGSTEN MADE STRONG CASE FOR PRICE FREEZE THROUGH 1978. WHILE VIEWING SOME US ARGUMENTS SYMPATHETICALLY, SADLI SAID IT UNREASONABLE TO EXPECT OIL PRODUCERS BEAR DISPROPORTIONATE SACRIFICE IN EFFORTS SUSTAIN WORLD ECONOMIC RECOVERY, ESPECIALLY WHEN US UNABLE TO PUT ITS OWN ENERGY PROGRAM IN PLACE.

3. ACCORDING SADLI, ASSISTANT SECRETARY BERGSTEN HIGHLIGHTED POTENTIALLY HARMFUL EFFECTS OF NEW OIL PRICE INCREASES ON WESTERN EUROPEAN POLITICAL AND ECONOMIC STABILITY. SADLI NOTED, HOWEVER, THAT IN RECENT DISCUSSIONS IN TOKYO JAPANESE OFFICIALS ACKNOWLEDGED JAPAN'S ABILITY ACCEPT 5 OF 10 PERCENT PRICE HIKE AND DID NOT EMPHASIZE NEGATIVE POLITICAL AND ECONOMIC EFFECTS OF SUCH AS INCREASE ON OTHER NATIONS.

4. NONETHELESS, SADLI AGREES EXCESSIVE INCREASES IN OIL PRICES WOULD CARRY UNACCEPTABLE RISKS OF NEGATIVE POLITICAL AND ECONOMIC CONSEQUENCES. HE THOUGHT A 5 PERCENT INCREASE IN SAUDI MARKET CRUDE WOULD TRANS-LATE INTO ONLY A 2-3 PERCENT ACTUAL INCREASE IN OIL PRICES ONCE OTHER PRODUCING COUNTRIES MADE NECESSARY ADJUSTMENTS IN THE FACE OF SURPLUSES OF OIL IN MARKET.
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ACCORDING TO SADLI, SUCH AN INCREASE WOULD NOT INVOLVE SIGNIFICANT POLITICAL OR ECONOMIC RISKS.

5. REFERRING TO OPEC "RADICALS" LIKE LIBYA AND IRAQ, SADLI CAUTIONED US SHOULD NOT UNDERESTIMATE DEGREE TO WHICH SUDIS MUST WEITH "RADICALS" POSITION ON OIL PRICES. EVEN THOUGH "RADICALS" HAVE LITTLE ECONOMIC MUSCLE WITHIN OPEC, THEY HAVE ABILITY HARM SAUDI POLITICAL INTERESTS IN MIDDLE EAST IF THEY FEEL THEIR VIEWS ARE TOTALLY IGNORED. THUS, SADLI FEELS SAUDI ARABIA WILL WISH TO LET "OPEC MIDDLE" CARRY THE PRICING DECISION, WHICH IS FAR MORE LIKELY TO BE MODEST INCREASE THAN FREEZE.

6. SPEAKING ALMOST PHILOSOPHICALLY, SADLI SAID WORLD ECONOMY WOULD BE BETTER SERVED IF OPEC AND MAJOR CONSUMING COUNTRIES COULD NEGOTIATE LONG-TERM (3YEAR) OIL PRICING AGREEMENT. FOR EXAMPLE, OPEC MIGHT WELL AGREE TO SUCCESSIVE ANNUAL INCREASES OF 5 PERCENT OVER NEXT 3 YEARS, WHICH SADLI SAID WOULD BE BENEFICIAL TO WORLD ECONOMY BOTH BECAUSE OF THEIR RELATIVELY MODEST NATURE AND THEIR PREDICTABILITY FOR PLANNING. APPROPRIATE

CONSUMING COUNTRIES' QUID PRO QUO WOULD BASICALLY CENTER ON MEASURES TO HOLD DOWN INFLATION AND/OR TRANSFER OF TECHNOLOGY. ACCORDING SADLI, THIS TYPE OF ARRANGEMENT WOULD BE BETTER WAY OF APPROACHING ISSUE OF OPEC'S GLOBAL RESPONSIBILITIES THAN ANNUAL APPEALS FOR PRICE FREEZES.

7. IN SEPARATE CONVERSATION, PERTAMINA PRESIDENT HARYONO ALSO SAID 5 PERCENT PRICE HIKE IS POSSIBLE OUTCOME OF CARACAS MEETING, ALTHOUGH HE WENT TO LENGTHS TO EMPHASIZE ANY INCREASE IN EXCESS OF 10 PERCENT WOULD BE IRRESPONSIBLE. HE WAS PARTICULARLY UNKIND TO REPORTED ALGERIAN SUGGESTION AT VIENNA OPEC MEETING ON NATIONAL OIL COMPANIES THAT PROGRESSIVE ANNUAL PRICE INCREASES OF 15
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PERCENT WERE NECESSARY TO ACCELERATE COMMERCIAL DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES.

8. HARYONO SAID US ABILITY TO INFLUENCE OPEC PRICING DECISION LIES IN TWO AREAS: A) CONTINUING PLAY CONSTRUCTIVE ROLE IN MIDDLE EAST POLITICAL SITUATION AND B) PROTECTING VALUE OF DOLLAR PRIOR TO DECEMBER OPEC MEETING. HE STRONGLY URGED USG TO ACT TO AVOID FURTHER DECLINE OF DOLLAR THAT HE SAID WOULD LEND WEIGHT TO THOSE IN OPEC WHO WANT HIGHEST POSSIBLE INCREASES. HE ESTIMATED VALUE OF DOLLAR IN NOVEMBER AND EARLY DECEMBER COULD WELL BE DIFFERENCE BETWEEN 5 PERCENT AND 10 PERCENT PRICE INCREASE IN CARACAS.
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